

UK Supreme Court Overturns Motor Finance Commission Ruling in Boost for Banks

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The UK Supreme Court has overturned a landmark judgment on motor finance commissions, handing a major legal victory to banks and lenders. The ruling eases industry concerns over potential multibillion-pound compensation claims linked to commission disclosure practices in car finance agreements.

The case centred on whether car dealers owed a fiduciary duty to customers when arranging vehicle finance and if lenders were liable for undisclosed commissions paid to those dealers. The court ruled that dealers were not acting as agents for the borrower and therefore had no such duty, meaning lenders are not automatically responsible for hidden commission arrangements.

Several major banks, including Barclays, Lloyds, Santander UK, Close Brothers, and FirstRand, had prepared for potential liabilities. Some had collectively set aside nearly £2 billion in anticipation of a broader compensation scheme, while earlier estimates warned total exposure could reach as high as £40 billion. The latest decision significantly reduces that risk.

However, in one of the three appeals reviewed, the court upheld a finding in favour of a borrower, where the terms of the finance deal were deemed unfair. This means that while lenders may be shielded from broad-based claims, some individual consumers could still bring cases under provisions of the Consumer Credit Act where interest rates or terms created an unfair relationship.

The Financial Conduct Authority (FCA) now has six weeks to decide whether a formal redress scheme is necessary. Industry observers expect any action to be narrower than originally feared, focusing on individual cases rather than a mass payout.

The ruling had an immediate impact on market sentiment. Shares in several affected banks rose following the judgment, reflecting investor relief over the reduced threat of widespread compensation payouts.

Despite the result, some legal firms and consumer advocates have signalled they will continue to pursue claims on behalf of affected customers, particularly in cases where finance terms were not clearly explained. They argue that the judgment does not change the need for greater transparency in commission-based sales.

Industry groups welcomed the clarity provided by the Supreme Court, stating it restores legal certainty to the motor finance market. Consumer groups, however, maintain that further reforms are needed to ensure fair treatment and greater awareness for borrowers.

The Supreme Court's decision, while providing a measure of relief for the banking sector, now shifts the focus to the Financial Conduct Authority (FCA). The regulator has a critical role in determining the path forward, with an expected announcement on a potential redress scheme in the coming weeks. The FCA's decision will be closely watched by millions of consumers who may still be entitled to compensation under the "unfair relationship" provisions of the Consumer Credit Act, and it will set the tone for future regulatory oversight of the UK's motor finance market.